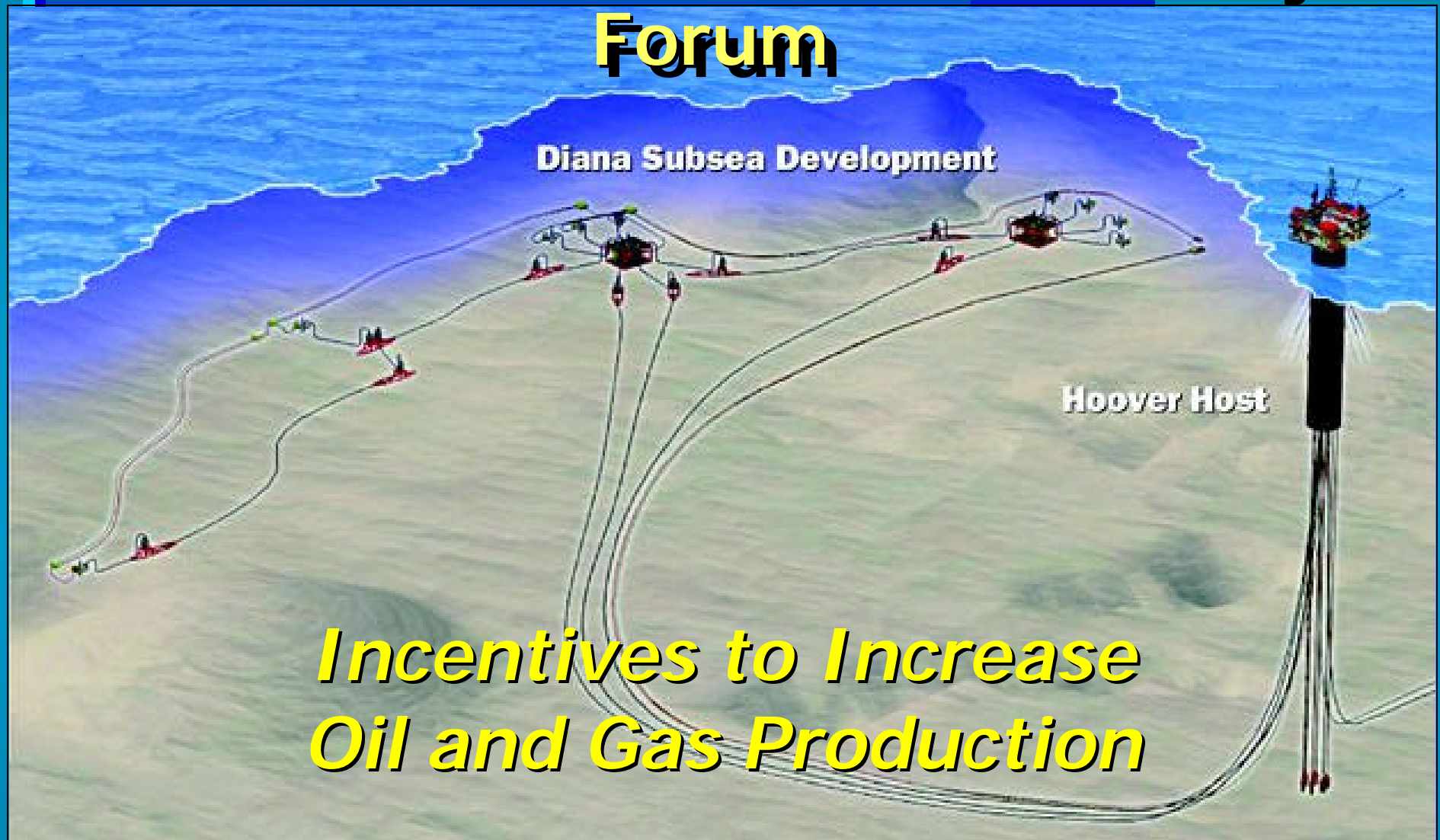


U.S. - China Oil and Gas Industry Forum



*Incentives to Increase
Oil and Gas Production*

Carolita U. Kallaur, Associate Director
Offshore Minerals Management
U.S. Department of Interior
Minerals Management Service



Offshore Growing in Importance

▶▶ Globally

- ✓ 50% remaining resources offshore

▶▶ Domestically

- ✓ 60% remaining resources offshore
- ✓ Deepwater holds most promise





MMS - A Resource Manager

▶▶ Responsibility

- ✓ 1.7 billion OCS acres
- ✓ 24% of U.S. oil; 26% of U.S. natural gas

▶▶ Management

- ✓ Lease issuance to decommission
- ✓ Safety & environmental performance is key

▶▶ Revenue

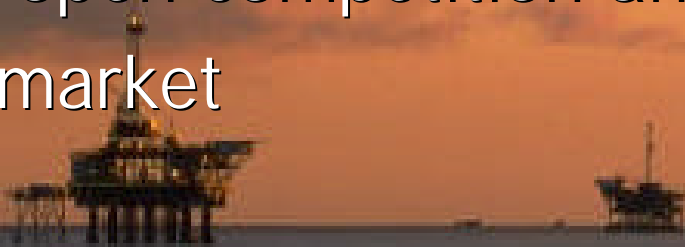
- ✓ Since 1953 - \$133 billion from OCS



U.S. OCS Oil & Gas Resources

►► The Gulf of Mexico

- ✓ A world class oil and gas province
- ✓ Contains half the deepwater development projects currently under study worldwide
- ✓ Allows for open competition and ready access to market



Role of MMS

Assess and evaluate
resources and reserves

Assess and monitor
environmental
impacts

- Develop & implement leasing program
- Regulate exploration & development
- Foster a competitive environment
- Return seabed to original condition

Conduct
technological and
environmental research

Critical Elements of our Oil and Gas Regime

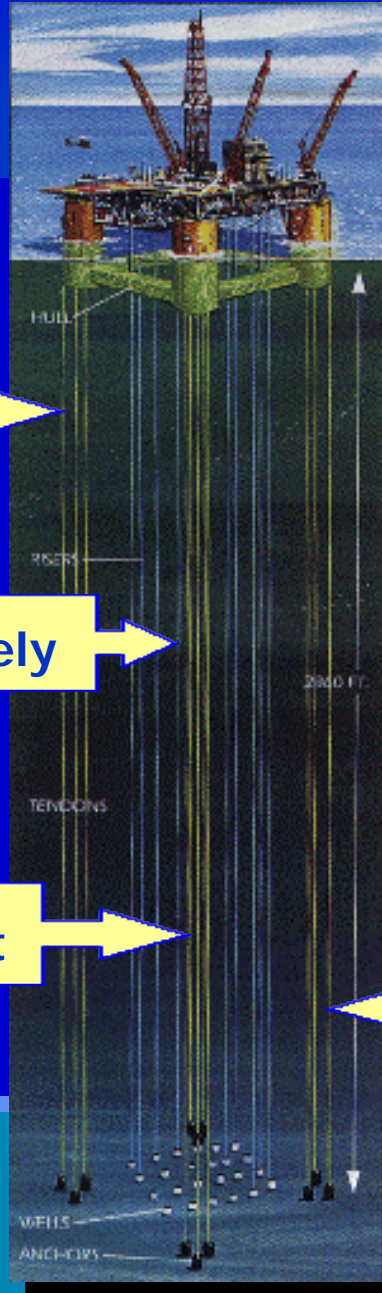
Predictable

Timely

Transparent

A competently managed and impartial regulatory system combined with a stable and unbiased fiscal regime will attract capital and expertise to fully explore and produce resources in an environmentally sound and safe manner

Flexible



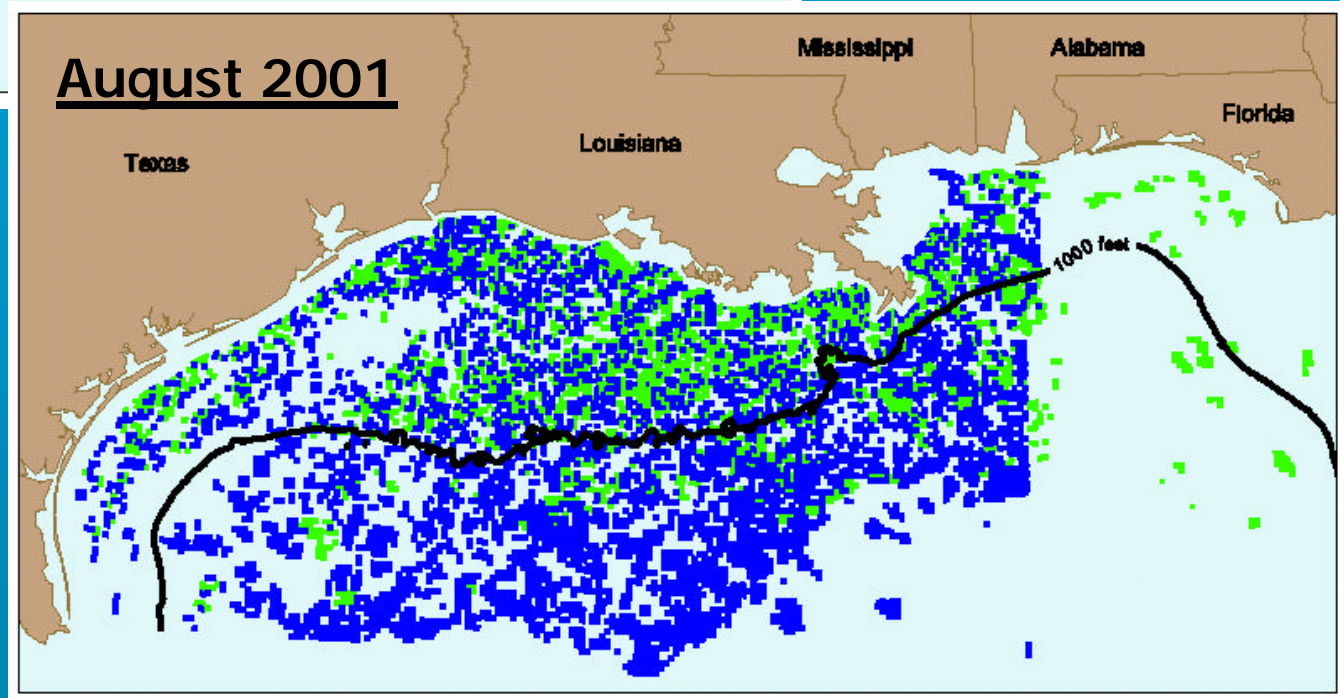
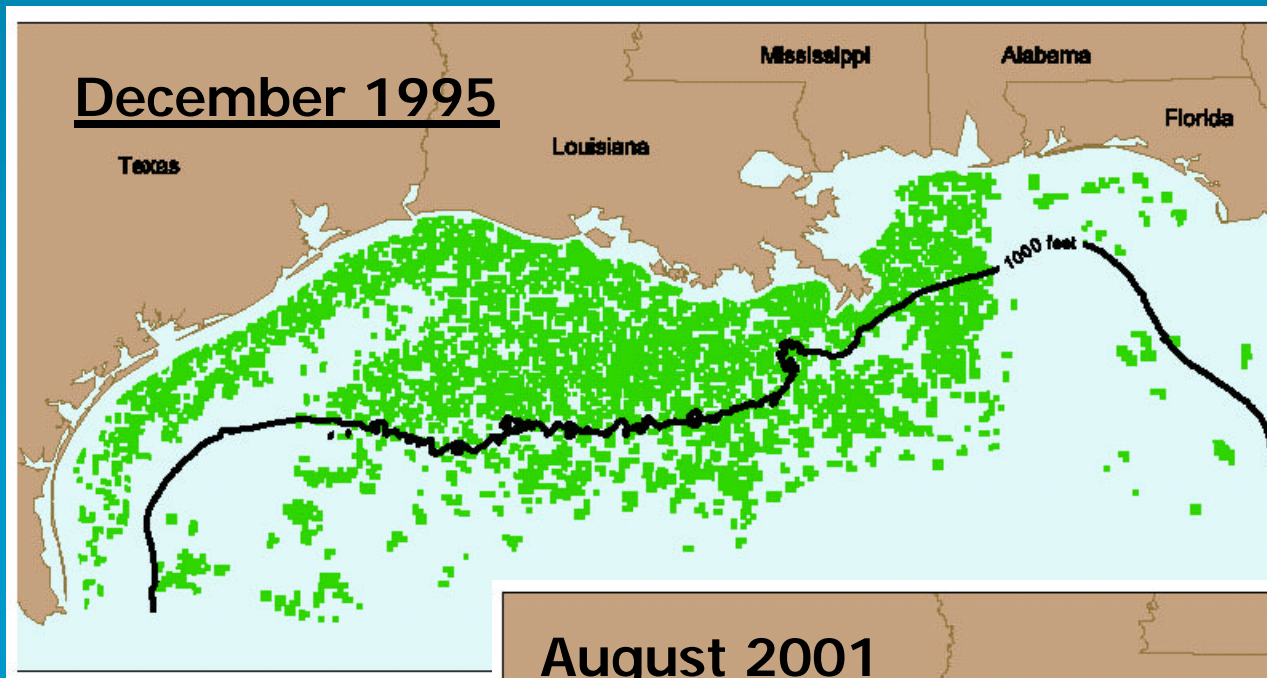
Economic Incentives

Deepwater Royalty Relief

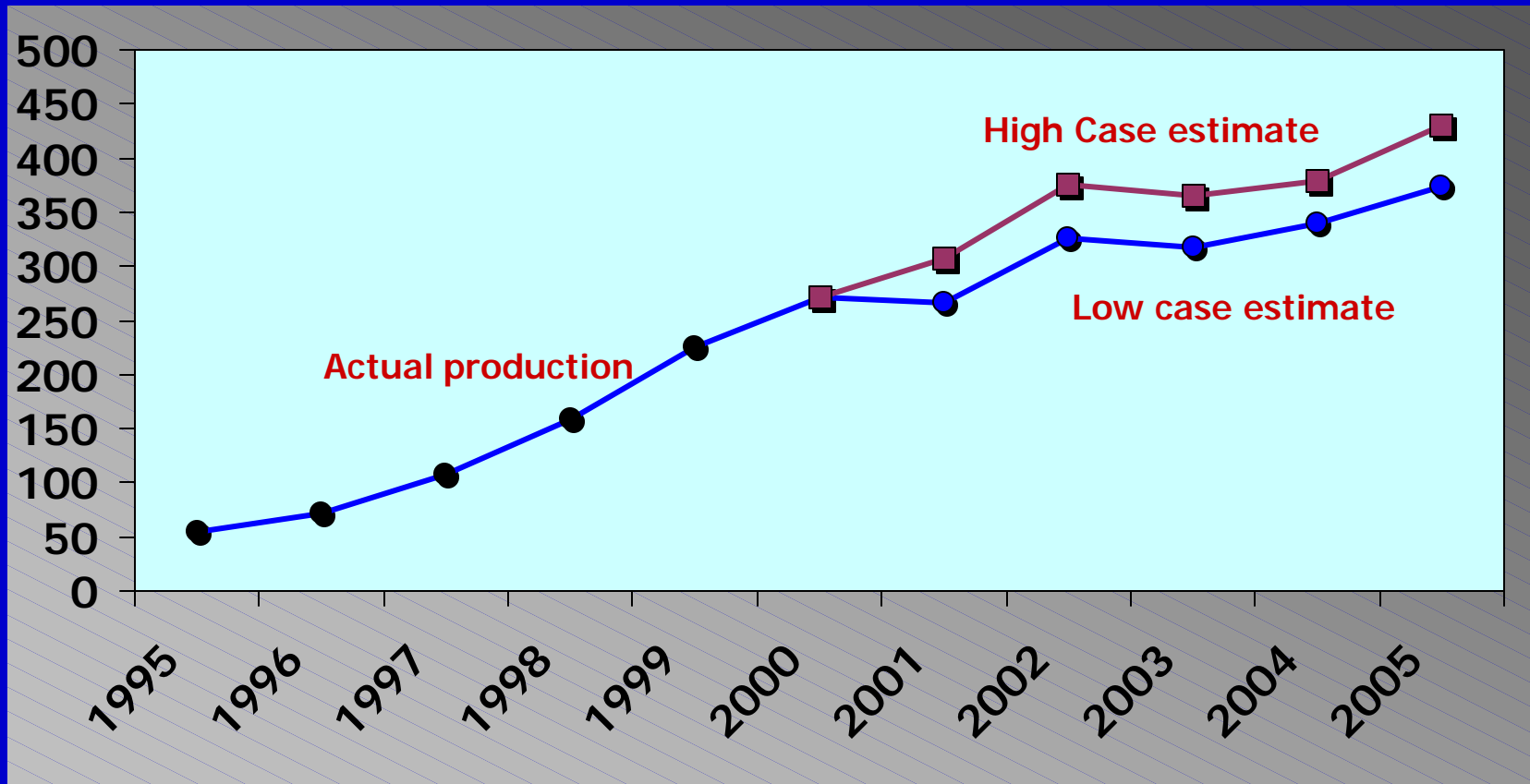
- ▶▶ 1990's - recognize need to compete for capital
- ▶▶ Need to spur development of technology and infrastructure
- ▶▶ Deep Water Royalty Relief Act
 - ✓ Royalty holiday for portion of new production
 - ✓ Discretionary relief for old leases
 - ✓ Relief tied to water depths, price thresholds



Active Leases



Deepwater Oil Production 1995 - 2005



Future Royalty Relief

▶▶ Automatic - Lease based

- ✓ Allow bidders greater certainty about level of relief
- ✓ Volume tied to current economics, but hope to set for 3 year period
- ✓ Price thresholds

▶▶ Discretionary - Project based

- ✓ After exploration, but before development
- ✓ Price thresholds



Deep Drilling Royalty Relief

- ▶▶ New leases - water depths less than 200 m
 - ✓ Production from wells more than 4,570 m subsea
 - ✓ Price threshold
- ▶▶ Active Leases - under development
 - ✓ Depth specific royalty relief
 - ✓ Royalty credits for certain unsuccessful deep gas wells
 - ✓ Price threshold



Operational Incentives

- ▶▶ Regulatory framework - industry flexibility
 - ✓ "Performance Standard" allows company to use new technology
 - ✓ Company can design its own program
- ▶▶ Regulatory framework - MMS flexibility
 - ✓ Subsalt lease extension - recognizes complex geology, allows more time for drilling
- ▶▶ FPSO - rely on API standards versus regulations



In Conclusion

▶▶ Our system

- ✓ Open competition and stable
- ✓ Allows MMS to react to economic, geological and technological change

▶▶ Maintain commitment to core values

- ✓ Protection of the environment
- ✓ Safe operations

▶▶ Continues to evolve

